

May 15, 2003

HAND DELIVER

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, Massachusetts 02110

Re: The Berkshire Gas Company, D.T.E. 01-56

Dear Secretary Cottrell:

In a decision dated January 31, 2002, the Department of Telecommunications and Energy (the "Department") approved, with certain modifications, the performance-based ratemaking or Price Cap Mechanism ("PCM") Plan of The Berkshire Gas Company ("Berkshire"). The PCM Plan provides for a ten-year rate plan commencing with a 31-month rate freeze. Berkshire's rates would thereafter be adjusted annually pursuant to a price cap formula. The Berkshire Gas Company, D.T.E. 01-56, p. 7 (2002). Berkshire's PCM allows the Company to recover exogenous cost provided each individual cost exceeds \$65,000 in a particular year. Exogenous costs include activities that are beyond the Company's control and not reflected in standard inflation indices such as regulatory changes affecting gas distribution companies. The PCM Plan provided that Berkshire could seek exogenous cost adjustments during the rate freeze period or defer consideration of such costs until the Company's next base rate change. The Department also held that it would investigate the service quality component of the PCM Plan in a separate docket. Id. at 2-3.

Berkshire is pleased to report that it has been operating pursuant to the PCM Plan for more than one full year. Berkshire's customers will continue to benefit from the rate freeze component of the PCM Plan until September 2004. Importantly, Berkshire has submitted all requisite materials with respect to its service quality performance in docket D.T.E. 03-11.

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Berkshire notes that it has incurred exogenous costs that meet the PCM Plan's standards, including costs associated with equipment necessary to satisfy mandatory service quality reporting standards for telephone response and with security measures that have recently been implemented by gas utilities as part of the continuing war on terrorism. Each of these measures cost in excess of \$65,000. Berkshire submits that the cost of each of these measures satisfies the PCM Plan standards for exogenous costs. However, Berkshire believes that any rate adjustment for these costs would result in customer confusion and burden the Department and other stakeholders. Accordingly, consistent with the terms of the PCM Plan (Id. at 14), Berkshire shall defer these exogenous costs for future consideration and recovery. A presentation in support of the recovery of these exogenous costs, as well as other appropriate adjustments, will be made in the Company's May 15, 2004 filing for effect beginning September 1, 2004. Berkshire submits that this treatment is wholly consistent with the terms of the PCM Plan as well as the principles underlying Department precedent. See North Attleboro Gas Company, D.P.U. 93-229, pp. 7-8 (1994).

Please call me if you have any questions with respect to this matter.

Thank you for your consideration.

Sincerely,

Karen L. Zink
Vice President and General Manager

cc: Kevin Brannelly, Director, Rates & Revenue Requirements Division
George Yiankos, Director, Gas Division
John Geary, Esq., Hearing Officer
Service List
James M. Avery, Esq.

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